

CITY OF HENDERSON
Henderson, Texas

ANNUAL FINANCIAL REPORT
September 30, 2016

**City of Henderson, Texas
Annual Financial Report
For the Year Ended September 30, 2016**

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Honorable City Council
City of Henderson
400 W. Main
Henderson, TX 75652

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Henderson, Texas, ("City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

MEMBER

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Henderson, Texas, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the City's proportionate share of the net pension liability and schedule of City pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Henderson, Texas', basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, combining and individual fund financial statements are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2017, on our consideration of the City of Henderson, Texas, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other

matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Morgan LaGrone
Certified Public Accountant

Henderson, Texas
March 10, 2017

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City of Henderson, Texas
Management’s Discussion and Analysis
 September 30, 2016

This section of the City of Henderson, Texas (“City”) annual financial report presents our discussion and analysis of the City’s financial performance during the fiscal year ended September 30, 2016. Please read it in conjunction with the City’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

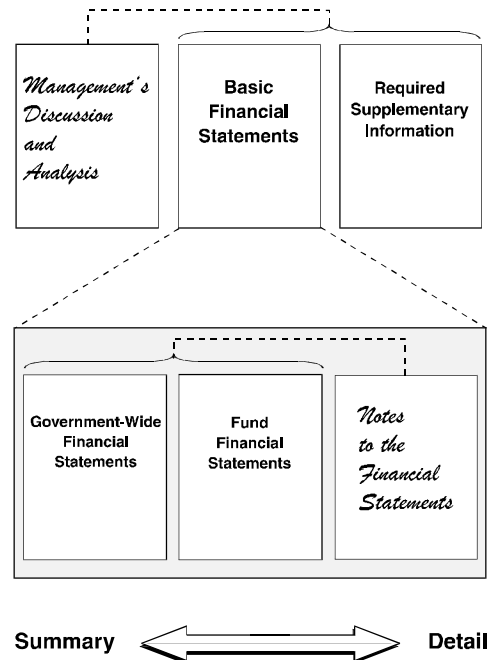
- The City’s total combined net position was \$45,148,591 at September 30, 2016.
- The total cost of the City’s programs increased 12.8% from the prior year, primarily due to the increase in water and sewer expenses.
- The general fund reported a fund balance this year of \$6,943,702, of which \$65,500 was nonspendable, \$59,681 was restricted and \$6,818,521 was unassigned.
- The City obtained capital lease financing in the amount of \$444,672 to purchase a new fire truck.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—management’s discussion and analysis (this section), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City’s operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses.
- Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

Figure A-1, Required Components of the City’s Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2016

Government-wide Statements

The Government-wide Financial Statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the Government-wide Financial Statements are designed to distinguish functions of the City that are principally supported by taxes, intergovernmental revenues, fees, and fines (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, sanitation, streets, culture and recreation, and debt service. The business-type activities of the City are comprised of a water and sewer utility fund.

The Government-wide Financial Statements include not only the City itself (known as the primary government) but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The Government-wide Financial Statements can be found on pages 14-15 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- Governmental funds — Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.

The City maintains fourteen (14) individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund. A budgetary comparison schedule has been provided for the General Fund on pages 54-55 to demonstrate compliance with the annual appropriated budget. Data from the other eleven (11) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of Combining Statements elsewhere in this report.

The basic Governmental Fund Financial Statements can be found on pages 16-19 of this report.

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2016

- Proprietary funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Water and Sewer utility. The City also maintains an Internal Service Fund, which is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses the Internal Service Fund to account for its self-insured health insurance activities (the collection of payments by the City and its employees for health insurance premiums and the payment of health insurance claims of City employees). Because this service predominately benefits the governmental rather than business-type functions of the City, it has been included within governmental activities in the Government-wide Financial Statements.

Proprietary Funds provide the same type of information as the Government-wide Financial Statements, only in more detail.

The basic Proprietary Fund Financial Statements can be found on pages 20-22 of this report.

- Fiduciary funds — The City is the trustee, or fiduciary, for certain funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

The City's basic Fiduciary Fund Financial Statements can be found on pages 23-24 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements. The Notes to the Financial Statements can be found on pages 25-53 of this report.

Other Information

In addition to the Basic Financial Statements and accompanying Notes, this report also presents Combining and Individual Fund Financial Statements for the nonmajor governmental funds. The Combining and Individual Fund Financial Statements may be found on pages 59-64 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$45,148,591 at the close of the most recent fiscal year.

By far, the largest portion of the City's Net position (84.47%) reflects its investment in capital assets (e.g., Land, Buildings, Machinery and Equipment, Infrastructure, and its Water and Wastewater Distribution System), less the related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2016

Table A-1
City of Henderson, Texas
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current Assets:						
Cash and Cash Equivalents	\$ 8,880,690	\$ 10,288,405	\$ 2,932,374	\$ 3,622,011	\$ 11,813,064	\$ 13,910,416
Investments	14,057	14,016	25,251	25,173	39,308	39,189
Taxes Receivable (Net)	1,454,449	1,554,261	-	-	1,454,449	1,554,261
Accounts Receivable (Net)	416,978	442,772	648,800	797,210	1,065,778	1,239,982
Other Receivables	43,617	44,201	4	2	43,621	44,203
Internal Balances	(315,227)	(1,362,854)	315,227	1,362,854	-	-
Prepays	444,672	-	-	-	444,672	-
Inventory	-	1,078	-	-	-	1,078
Total Current Assets	<u>\$ 10,939,236</u>	<u>\$ 10,981,879</u>	<u>\$ 3,921,656</u>	<u>\$ 5,807,250</u>	<u>\$ 14,860,892</u>	<u>\$ 16,789,129</u>
Noncurrent Assets:						
Capital Assets	\$ 36,744,499	\$ 34,862,863	\$ 31,379,459	\$ 30,478,475	\$ 68,123,958	\$ 65,341,338
Accumulated Depreciation	(9,139,390)	(8,467,373)	(13,435,462)	(12,543,327)	(22,574,852)	(21,010,700)
Total Noncurrent Assets	<u>\$ 27,605,109</u>	<u>\$ 26,395,490</u>	<u>\$ 17,943,997</u>	<u>\$ 17,935,148</u>	<u>\$ 45,549,106</u>	<u>\$ 44,330,638</u>
Total Assets	<u>\$ 38,544,345</u>	<u>\$ 37,377,369</u>	<u>\$ 21,865,653</u>	<u>\$ 23,742,398</u>	<u>\$ 60,409,998</u>	<u>\$ 61,119,767</u>
Deferred Outflows of Resources:						
Deferred Amount on Refunding	\$ 15,390	\$ 22,438	\$ 82,876	\$ 88,347	\$ 98,266	\$ 110,785
Deferred Outflow Related to Pensions	1,652,920	683,504	453,251	187,426	2,106,171	870,930
Total Deferred Outflows	<u>\$ 1,668,310</u>	<u>\$ 705,942</u>	<u>\$ 536,127</u>	<u>\$ 275,773</u>	<u>\$ 2,204,437</u>	<u>\$ 981,715</u>
Current Liabilities:						
Accounts Payable & Accrued Expenses	\$ 818,627	\$ 1,117,487	\$ 208,742	\$ 213,847	\$ 1,027,369	\$ 1,331,334
Due to Component Unit	240,136	271,443	-	-	240,136	271,443
Due to Other Governments	31,671	28,332	-	-	31,671	28,332
Unearned Revenue	192,566	63,576	-	-	192,566	63,576
Customer Deposits	-	-	360,450	351,122	360,450	351,122
Total Current Liabilities	<u>\$ 1,283,000</u>	<u>\$ 1,480,838</u>	<u>\$ 569,192</u>	<u>\$ 564,969</u>	<u>\$ 1,852,192</u>	<u>\$ 2,045,807</u>
Noncurrent Liabilities						
Due within one year	\$ 648,054	\$ 611,900	\$ 525,735	\$ 668,100	\$ 1,173,789	\$ 1,280,000
Due in more than one year	3,724,497	3,895,494	3,642,243	4,170,188	7,366,740	8,065,682
Net Pension Liability	5,521,882	4,284,429	1,514,167	1,174,844	7,036,049	5,459,273
Total Noncurrent Liabilities	<u>\$ 9,894,433</u>	<u>\$ 8,791,823</u>	<u>\$ 5,682,145</u>	<u>\$ 6,013,132</u>	<u>\$ 15,576,578</u>	<u>\$ 14,804,955</u>
Total Liabilities	<u>\$ 11,177,433</u>	<u>\$ 10,272,661</u>	<u>\$ 6,251,337</u>	<u>\$ 6,578,101</u>	<u>\$ 17,428,770</u>	<u>\$ 16,850,762</u>
Deferred Outflows of Resources:						
Deferred Outflow Related to Pensions	\$ 29,094	\$ 18,342	\$ 7,978	\$ 5,084	\$ 37,072	\$ 23,426
Total Deferred Outflows	<u>\$ 29,094</u>	<u>\$ 18,342</u>	<u>\$ 7,978</u>	<u>\$ 5,084</u>	<u>\$ 37,072</u>	<u>\$ 23,426</u>
Net Position						
Net Investment in Capital Assets	\$ 24,291,968	\$ 22,463,048	\$ 13,843,062	\$ 13,166,113	\$ 38,135,030	\$ 35,629,161
Restricted	491,433	1,646,301	64,516	64,821	555,949	1,711,122
Unrestricted	4,222,726	3,682,759	2,234,886	4,204,054	6,457,612	7,886,813
Total Net Position	<u>\$ 29,006,127</u>	<u>\$ 27,792,108</u>	<u>\$ 16,142,464</u>	<u>\$ 17,434,988</u>	<u>\$ 45,148,591</u>	<u>\$ 45,227,096</u>

\$51,903 of the City's net position are restricted for debt service, \$42,716 are restricted for use in the Municipal Court, \$65,500 are restricted for a cemetery endowment, \$44,642 are restricted for law enforcement, \$10,995 are restricted for the fire department, \$194,707 are restricted for tourism, \$80,925 are restricted for bond funds, and \$45 are restricted for grants. The \$4,222,726 of unrestricted net position represents resources available to fund the programs of the City next year.

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2016

Changes in Net position

Table A-2
City of Henderson, Texas
Changes in Net Position

	Governmental		Business-Type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Program Revenues:						
Charges for Services	\$ 2,859,044	\$ 3,177,951	\$ 5,326,985	\$ 5,083,600	\$ 8,186,029	\$ 8,261,551
Operating Grants & Contributions	450,905	201,818	-	-	450,905	201,818
Capital Grants & Contributions	18,452	21,409	-	-	18,452	21,409
General Revenues:						
Property Taxes	3,729,288	3,434,401	-	-	3,729,288	3,434,401
Sales Taxes	4,243,447	4,740,562	-	-	4,243,447	4,740,562
Franchise and Other Taxes	997,726	918,176	-	-	997,726	918,176
Other	421,986	272,958	47,807	180,991	469,793	453,949
Disposition of Capital Assets	-	-	-	(46,424)	-	(46,424)
Total Revenues	\$ 12,720,848	\$ 12,767,275	\$ 5,374,792	\$ 5,218,167	\$ 18,095,640	\$ 17,985,442
Functions/Programs:						
General Government	\$ 2,410,398	\$ 2,053,678	\$ -	\$ -	\$ 2,410,398	\$ 2,053,678
Public Safety	5,171,829	4,240,238	-	-	5,171,829	4,240,238
Sanitation	1,628,559	1,649,076	-	-	1,628,559	1,649,076
Public Services	2,559,902	3,233,819	-	-	2,559,902	3,233,819
Interest on Long-Term Debt	103,082	113,905	-	-	103,082	113,905
Water & Sewer	-	-	6,300,376	4,816,827	6,300,376	4,816,827
Total Expenses	\$ 11,873,770	\$ 11,290,716	\$ 6,300,376	\$ 4,816,827	\$ 18,174,146	\$ 16,107,543
Increase in Net Position						
Before Transfers	\$ 847,078	\$ 1,476,559	\$ (925,584)	\$ 401,340	\$ (78,506)	\$ 1,877,899
Transfers	366,941	566,662	(366,941)	(566,662)	-	-
Increase in Net Position	\$ 1,214,019	\$ 2,043,221	\$ (1,292,525)	\$ (165,322)	\$ (78,506)	\$ 1,877,899
Net Position, Beginning	27,792,108	25,748,887	17,434,988	17,600,310	45,227,096	43,349,197
Net Position, Ending	\$ 29,006,127	\$ 27,792,108	\$ 16,142,463	\$ 17,434,988	\$ 45,148,590	\$ 45,227,096

City of Henderson, Texas
 Management's Discussion and Analysis
 September 30, 2016

Chart A-1
 City of Henderson, Texas
 Revenues for the Year Ended September 30, 2016

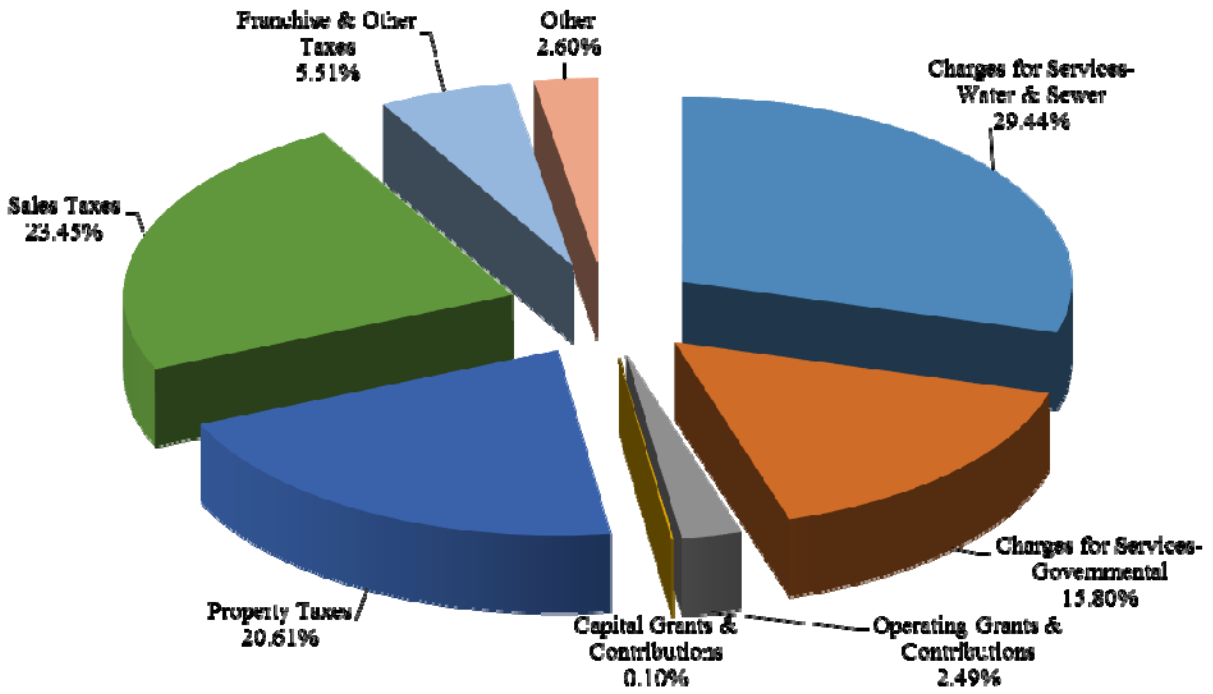
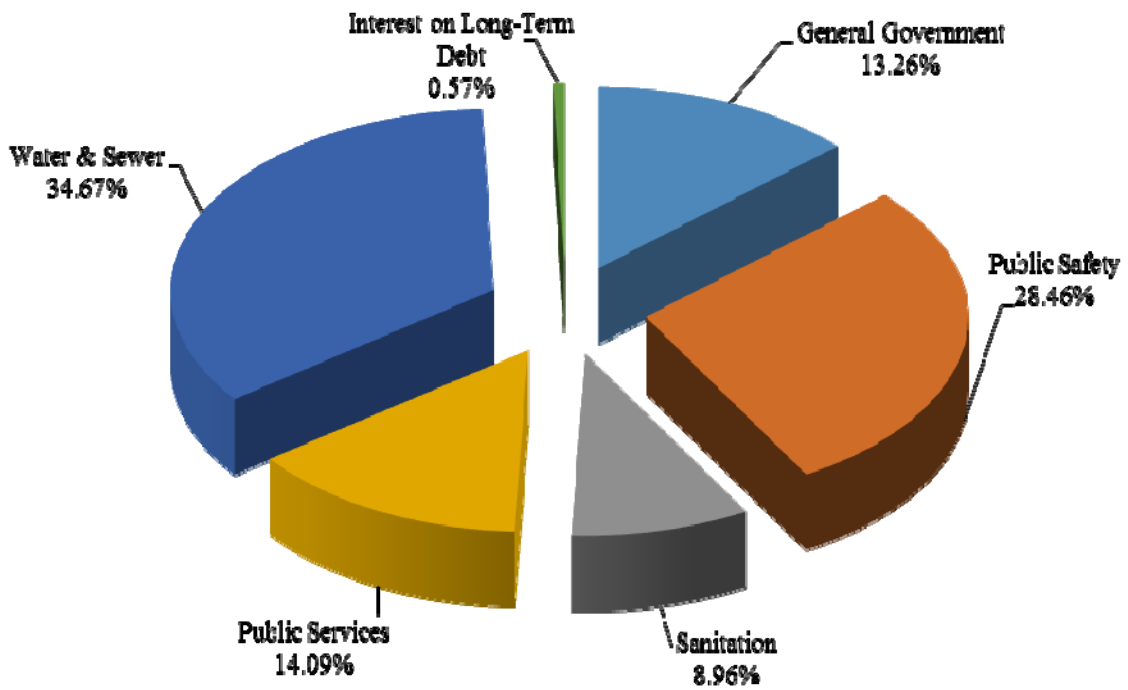


Chart A-2
 City of Henderson, Texas
 Expenses for the Year Ended September 30, 2016



City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2016

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, Unreserved Fund Balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's Governmental Funds reported combined ending Fund Balances of \$9,169,681, an increase of \$220,212 in comparison with the prior year. A significant reason for the increase was a general savings in most general fund budgeted expenditure categories.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, Unassigned Fund Balance of the General Fund was \$6,818,521, while total Fund Balance was \$6,943,702. As a measure of the General Fund's liquidity, it may be useful to compare both Unassigned Fund Balance and total Fund Balance to total fund expenditures. Unassigned Fund Balance represents 68.20% of total General Fund expenditures, while total Fund Balance represents 69.45% of that same amount. See Table A-3 below for a detail of all the City's fund balances.

The Fund Balance of the City's General Fund increased by \$865,719 during the current fiscal year. Key factors in this increase are:

- ◆ *General costs savings in all of the departments. See Exhibit A-1 for the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budgetary Basis).*

Table A-3
City of Henderson, Texas
Fund Balances - Governmental Funds

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Nonspendable:		
Cemetery Endowment	\$ 65,500	\$ 65,500
Inventories	-	1,078
Restricted:		
Municipal Court	42,716	34,617
Debt Service	51,903	22,109
Fire Department	10,995	-
Law Enforcement	44,642	40,027
Tourism	194,707	270,894
Grants	45	45
2012 Series Certificates of Obligation	80,925	73,320
Committed:		
Main Street	35,510	30,727
Cemetery	71,572	50,731
Street & Drainage	887,424	1,205,289
Animal Shelter	20,591	12,256
General Construction	859,012	1,120,265
Unassigned:		
General Fund	6,818,521	5,975,774
Civic Center	(14,382)	46,837
Total Fund Balances	\$ 9,169,681	\$ 8,949,469

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2016

Proprietary Funds. The City's Proprietary Funds provide the same type of information as the Government-wide Financial Statements, only in more detail.

Unrestricted net position of the Water & Sewer Enterprise Fund at the end of the year amounted to \$2,234,886. Overall, net position for the fund decreased \$1,292,525. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities above.

The City's other proprietary fund is the Self-Insurance Internal Service Fund. Unrestricted Net position at the end of the current year amounted to (\$24,689). The City's operating budgets reduced contributions to the fund for the year ended September 30, 2016, due to the City no longer being self-insured.

General Fund Budgetary Highlights

The City budgets on a departmental basis, without regard to whether expenditures are current, capital, debt service, or a transfer to another fund. Additionally, transfers from other funds and carryovers from prior years are budgeted as revenue. Refer to Exhibits A-1 and A-2 and Note III to the financial statements for further information regarding the City's General Fund budgeting practices.

Over the course of the year, the City revised its budget. Differences between the original budget and the final amended budget were a net increase in appropriations of \$479,149. The significant increases to the overall budgeted expenditures are as follows:

- \$18,970 in professional expenditures
- \$98,246 in capital and equipment purchases for the fire department
- \$78,478 in capital and equipment purchases for the police department
- \$267,372 received/spent for a HOME grant

Differences between the final amended budget and actual General Fund expenditures were a net positive variance of \$741,785. In addition to a general cost savings in all departments, the police department had a positive budget variance of \$101,304, which was primarily due to saved costs in salaries, retirement, and related expenditure items as well as fuel and electric. Health insurance expenditures were below budgeted amounts, which caused an overall positive nondepartmental budget variance of \$210,114. The streets department had a general cost savings in most of the individual expenditure line items, resulting in a positive budget variance of \$95,829. In addition, the community development department had a savings of \$139,471.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the City's investment in capital assets for its governmental and business-type activities amounts to \$45,549,104 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, water and wastewater distribution system, infrastructure and construction in progress. The investment in the City's capital assets remained relatively constant from the prior year, only increasing 2.74%. (See Table A-4.) More detailed information about the City's capital assets is presented in Note IV.C to the financial statements.

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2016

Table A-4
City of Henderson, Texas
Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 1,382,278	\$ 1,382,278	\$ 410,130	\$ 410,130	\$ 1,792,408	\$ 1,792,408
Buildings and Improvements	9,373,091	9,339,488	-	-	9,373,091	9,339,488
Machinery and Equipment	4,073,851	3,438,420	1,725,482	1,605,422	5,799,333	5,043,842
Improvements other than Buildings	3,472,062	4,061,150	-	-	3,472,062	4,061,150
Water and Wastewater Distribution Infrastructure	-	-	29,243,847	28,258,488	29,243,847	28,258,488
Infrastructure	17,367,337	16,008,961	-	-	17,367,337	16,008,961
Construction in Progress	1,075,879	632,566	-	204,435	1,075,879	837,001
Total Capital Assets	\$ 36,744,498	\$ 34,862,863	\$ 31,379,459	\$ 30,478,475	\$ 68,123,957	\$ 65,341,338
Less: Accumulated Depreciation	(9,139,391)	(8,467,373)	(13,435,462)	(12,543,327)	(22,574,853)	(21,010,700)
Net Capital Assets	\$ 27,605,107	\$ 26,395,490	\$ 17,943,997	\$ 17,935,148	\$ 45,549,104	\$ 44,330,638

Long-Term Debt

At year-end, the City had \$15,570,474 in bonds, certificates of obligation, and other long-term liabilities outstanding as shown in Table A-5. More detailed information about the City's debt is presented in Note IV.E to the financial statements.

Table A-5
City of Henderson, Texas
Long-Term Debt

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General Obligation Bonds	\$ -	\$ -	\$ 2,570,000	\$ 3,080,000	\$ 2,570,000	\$ 3,080,000
Certificates of Obligation Payable	3,394,065	4,005,763	1,530,935	1,689,035	4,925,000	5,694,798
Capital Lease	444,672	-	-	-	444,672	-
Add: Premium on Issue	36,955	41,399	19,406	21,830	56,361	63,229
Other Post-Employment Benefits (OPEB)	210,071	197,467	-	-	210,071	197,467
Compensated absences	286,990	262,765	41,331	47,423	328,321	310,188
Net Pension Liability	5,521,882	4,284,430	1,514,167	1,174,844	7,036,049	5,459,274
Total	\$ 9,894,635	\$ 8,791,824	\$ 5,675,839	\$ 6,013,132	\$ 15,570,474	\$ 14,804,956

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- After the budget was prepared for 2017, the following tax rates were approved:
 - \$.04071 per \$100 valuation for General Operations
 - \$0.1146 per \$100 valuation for Debt Service
 - \$.05217 per \$100 valuation Total Tax Rate
- Sanitation revenues and the related payments to the sanitation contractor are not expected to change from the 2016 fiscal year.
- Water and wastewater rates will remain the same as in the 2016 fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT STAFF

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances. In addition, it provides evidence of accountability for funds the City receives.

Complete financial statements for HEDCO, the City's component unit may be obtained at HEDCO's administrative offices at 400 W. Main, Henderson, Texas 75652.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Finance Department, at City of Henderson, Texas, 404 West Main Street, Henderson, Texas 75652.

BASIC FINANCIAL STATEMENTS

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**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

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City of Henderson, Texas
Statement of Net Position
September 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	HEDCO
Assets				
Cash and cash equivalents	\$ 8,880,690	\$ 2,507,408	\$ 11,388,098	\$ 4,359,316
Investments	14,057	25,251	39,308	-
Receivables (net allowances for uncollectibles)				
Taxes	1,454,449	-	1,454,449	240,136
Accounts	388,972	648,800	1,037,772	-
Due from other governments	-	-	-	-
Notes	-	-	-	993,334
Special assessments	28,006	-	28,006	-
Other	43,617	4	43,621	-
Internal balances	(315,227)	315,227	-	-
Inventory	-	-	-	-
Prepays	444,672	-	444,672	-
Restricted cash and investments				
Cash and cash equivalents	-	424,966	424,966	-
Capital assets (Net of accumulated depreciation)				
Land	1,382,278	410,130	1,792,408	1,123,887
Buildings and improvements	7,458,452	-	7,458,452	-
Machinery and equipment	656,446	573,500	1,229,946	-
Improvements other than buildings	1,657,378	-	1,657,378	-
Water and wastewater distribution	-	16,960,367	16,960,367	-
Infrastructure	15,374,675	-	15,374,675	-
Construction in progress	1,075,879	-	1,075,879	-
Total assets	\$ 38,544,344	\$ 21,865,653	\$ 60,409,997	\$ 6,716,673
Deferred Outflows of Resources				
Unamortized deferred amount on refunding	\$ 15,390	\$ 82,876	\$ 98,266	-
Deferred Outflow Related to Pensions	1,652,920	453,251	2,106,171	-
Total deferred outflows of resources	\$ 1,668,310	\$ 536,127	\$ 2,204,437	\$ -
Liabilities				
Accounts payable	\$ 755,341	\$ 202,109	\$ 957,450	\$ 3,622
Accrued liabilities	54,750	-	54,750	-
Accrued interest payable	8,536	6,633	15,169	-
Note payable	-	-	-	-
Due to component unit	240,136	-	240,136	-
Due to other governments	31,671	-	31,671	-
Unearned revenue	192,566	-	192,566	-
Customer deposits	-	360,450	360,450	-
Noncurrent liabilities:				
Due within one year	648,054	525,735	1,173,789	-
Due in more than one year	3,724,497	3,642,243	7,366,740	-
Net pension liability	5,521,882	1,514,167	7,036,049	-
Total liabilities	\$ 11,177,433	\$ 6,251,337	\$ 17,428,770	\$ 3,622
Deferred Inflows of Resources				
Deferred Inflow Related to Pensions	\$ 29,094	\$ 7,978	\$ 37,072	\$ -
Total deferred inflows of resources	\$ 29,094	\$ 7,978	\$ 37,072	\$ -
Net Position				
Net investment in capital assets	\$ 24,291,968	\$ 13,843,062	\$ 38,135,030	\$ 1,123,887
Restricted	491,433	64,516	555,949	-
Unrestricted	4,222,726	2,234,886	6,457,612	5,589,164
Total net position	\$ 29,006,127	\$ 16,142,464	\$ 45,148,591	\$ 6,713,051

The notes to the financial statements are an integral part of this statement.

City of Henderson, Texas
Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs:	Expenses	Programs Revenues			Net (Expenses) Revenue and Changes in Net Position			Component Unit HEDCO
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 2,410,398	\$ 419,783	\$ -	\$ -	\$ (1,990,615)		\$ (1,990,615)	
Public safety	5,171,829	-	96,507	-	(5,075,322)		(5,075,322)	
Sanitation	1,628,559	1,998,099	2,000	-	371,540		371,540	
Public services	2,559,902	441,162	352,398	18,452	(1,747,890)		(1,747,890)	
Debt Service	103,082	-	-	-	(103,082)		(103,082)	
Total governmental activities	<u>\$ 11,873,770</u>	<u>\$ 2,859,044</u>	<u>\$ 450,905</u>	<u>\$ 18,452</u>	<u>\$ (8,545,369)</u>		<u>\$ (8,545,369)</u>	
Business-type activities:								
Water and sewer	<u>\$ 6,300,376</u>	<u>\$ 5,326,985</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ (973,391)</u>	<u>\$ (973,391)</u>	
Total business-type activities	<u>\$ 6,300,376</u>	<u>\$ 5,326,985</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ (973,391)</u>	<u>\$ (973,391)</u>	
Total primary government	<u>\$ 18,174,146</u>	<u>\$ 8,186,029</u>	<u>\$ 450,905</u>	<u>\$ 18,452</u>	<u>\$ (8,545,369)</u>	<u>\$ (973,391)</u>	<u>\$ (9,518,760)</u>	
Component units:								
Economic development	<u>\$ 1,385,680</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ (1,385,680)</u>
General revenues:								
Taxes:								
Property taxes					\$ 3,729,288	\$ -	\$ 3,729,288	\$ -
Sales taxes					4,243,447	-	4,243,447	1,410,567
Franchise taxes					843,118	-	843,118	-
Other taxes					154,608	-	154,608	-
Investment earnings					26,543	9,760	36,303	40,954
Miscellaneous					395,443	38,047	433,490	4
Gain/(Loss) on Disposition of Capital Assets					-	-	-	-
Transfers					366,941	(366,941)	-	-
Total general revenues, extraordinary item, and transfers					<u>\$ 9,759,388</u>	<u>\$ (319,134)</u>	<u>\$ 9,440,254</u>	<u>\$ 1,451,525</u>
Change in net position					\$ 1,214,019	\$ (1,292,525)	\$ (78,506)	\$ 65,845
Net position, beginning					<u>27,792,108</u>	<u>17,434,988</u>	<u>45,227,096</u>	<u>6,647,206</u>
Net position, ending					<u>\$ 29,006,127</u>	<u>\$ 16,142,463</u>	<u>\$ 45,148,590</u>	<u>\$ 6,713,051</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

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City of Henderson, Texas
Balance Sheet
Governmental Funds
September 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 6,400,667	\$ 2,468,813	\$ 8,869,480
Investments	1,989	11,496	13,485
Receivables (net allowances for uncollectibles)			
Taxes:			
Sales	960,544	-	960,544
Property	286,112	-	286,112
Franchise	130,186	64,977	195,163
Hotel/Motel	-	12,630	12,630
Accounts			
Warrants	206,296	-	206,296
Sanitation	74,067	-	74,067
Other	-	108,608	108,608
Special assessments	-	28,006	28,006
Due from other governments	-	-	-
Other	43,614	-	43,614
Inventory	-	-	-
Prepays	444,672	-	444,672
Due from other funds	-	-	-
Total assets	<u>\$ 8,548,148</u>	<u>\$ 2,694,530</u>	<u>\$ 11,242,678</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 652,688	\$ 66,180	\$ 718,868
Accrued liabilities	54,750	-	54,750
Due to component unit	240,136	-	240,136
Due to other funds	-	315,227	315,227
Due to other governments	31,671	-	31,671
Unearned revenue	133,424	87,148	220,572
Total liabilities	<u>\$ 1,112,670</u>	<u>\$ 468,555</u>	<u>\$ 1,581,225</u>
Deferred Inflows of Resources:			
Deferred revenue	\$ 491,776	\$ -	\$ 491,776
Total Deferred Inflows of Resources	<u>\$ 491,776</u>	<u>\$ -</u>	<u>\$ 491,776</u>
Fund balances:			
Nonspendable	\$ 65,500	\$ -	\$ 65,500
Restricted	59,681	285,323	345,004
Committed	-	1,955,034	1,955,034
Unassigned	6,818,521	(14,382)	6,804,139
Total fund balances	<u>\$ 6,943,702</u>	<u>\$ 2,225,975</u>	<u>\$ 9,169,677</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,548,148</u>	<u>\$ 2,694,530</u>	<u>\$ 11,242,678</u>

The notes to the financial statements are an integral part of this statement.

City of Henderson, Texas
Reconciliation of the Balance Sheet-Governmental Funds
to the Statement of Net Position
September 30, 2016

Amounts Reported for Governmental Activities in the Statement of Net Position
are Different Because:

Total Fund Balances-Total Governmental Funds (Page 16)	\$ 9,169,677
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	27,605,111
Certain long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. (See Note II.A.)	519,781
An Internal Service Fund is used by management to charge the cost of claims to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Position.	(24,690)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (See Note II.A.)	(4,365,697)
Recognition of the City's net pension liability and related deferred resource inflows and outflows occurs in the Statement of Net Position but is not reported in the funds. (See Note II.A.)	<u>(3,898,055)</u>
Net Position of Governmental Activities (page 14)	<u>\$ 29,006,127</u>

City of Henderson, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes:			
Sales	\$ 4,246,447	\$ -	\$ 4,246,447
Property	2,755,333	955,781	3,711,114
Franchise	630,452	-	630,452
Hotel/Motel	-	154,608	154,608
Permits & fees	95,027	-	95,027
Charges for services	2,081,276	494,915	2,576,191
Fines & forfeitures	426,269	-	426,269
Intergovernmental	450,904	-	450,904
Interest	18,190	8,353	26,543
Miscellaneous	147,324	248,119	395,443
Total revenues	<u>\$ 10,851,222</u>	<u>\$ 1,861,776</u>	<u>\$ 12,712,998</u>
Expenditures:			
Current:			
General government:			
Administration	\$ 484,775	\$ -	\$ 484,775
Finance	274,610	-	274,610
Municipal court	297,346	-	297,346
Nondepartmental	1,199,966	8,025	1,207,991
Public safety			
Police	2,815,395	5,791	2,821,186
Fire	1,544,578	-	1,544,578
Sanitation	1,611,793	16,766	1,628,559
Public services:			
Tourism	-	190,551	190,551
Civic Center	-	146,269	146,269
Main Street	-	23,381	23,381
Streets	1,095,757	180,790	1,276,547
Parks	70,775	59,940	130,715
Activity center	7,496	-	7,496
Cemeteries	5,714	31,014	36,728
Community development	325,016	32,069	357,085
Animal shelter	155,203	-	155,203
Capital outlay	109,021	1,895,672	2,004,693
Debt service:			
Principal	-	611,900	611,900
Interest and fiscal charges	-	100,290	100,290
Bond Issuance Costs	-	1,500	1,500
Total expenditures	<u>\$ 9,997,445</u>	<u>\$ 3,303,958</u>	<u>\$ 13,301,403</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 853,777</u>	<u>\$ (1,442,182)</u>	<u>\$ (588,405)</u>
Other Financing Sources (Uses):			
Issuance of Bonds	\$ -	\$ -	\$ -
Capital Lease	444,672	-	444,672
Transfers in	495,340	799,671	1,295,011
Transfers out	(928,070)	(3,000)	(931,070)
Payment to Refunded Bond Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	<u>\$ 11,942</u>	<u>\$ 796,671</u>	<u>\$ 808,613</u>
Net Change in Fund Balances	\$ 865,719	\$ (645,511)	\$ 220,208
Fund Balances, Beginning	<u>6,077,983</u>	<u>2,871,486</u>	<u>8,949,469</u>
Fund Balances, Ending	<u>\$ 6,943,702</u>	<u>\$ 2,225,975</u>	<u>\$ 9,169,677</u>

The notes to the financial statements are an integral part of this statement.

City of Henderson, Texas
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances-Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2016

Amounts Reported for Governmental Activities in the Statement of Activities
are Different Because:

Net Change in Fund Balances-Total Governmental Funds (Page 18)	\$ 220,208
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (See Note II.B.)	1,209,619
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (See Note II.B.)	10,688
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. (See Note II.B.)	130,399
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (See Note II.B.)	(1,292)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/15 caused the change in the ending net position to increase in the amount of \$498,871. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in the net position totaling (\$510,905). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased the change in net position by (\$266,553). The overall result of these changes is the increase the change in net position by (\$278,588).	(278,588)
Internal Service Funds are used by management to charge the costs of health insurance to individual funds.	<u>(77,015)</u>
Changes in Net Position of Governmental Activities (Page 15)	<u><u>\$ 1,214,019</u></u>

The notes to the financial statements are an integral part of this statement.

City of Henderson, Texas
Statement of Net Position
Proprietary Funds
September 30, 2016

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 2,507,408	\$ 11,210
Investments	25,251	572
Restricted cash and investments:		
Cash and cash equivalents	424,966	-
Accounts receivable - net of allowances for uncollectibles	648,800	-
Accrued interest receivable	4	-
Other receivable	-	-
Due from other funds	315,227	-
Total Current Assets	\$ 3,921,656	\$ 11,782
Capital assets:		
Land	\$ 410,130	\$ -
Construction in progress	-	-
Motor vehicles	483,658	-
Equipment	1,241,824	-
Water and wastewater distribution	29,243,847	-
Less: accumulated depreciation	(13,435,463)	-
Total capital assets	\$ 17,943,996	\$ -
Total assets	\$ 21,865,652	\$ 11,782
<u>Deferred Outflows of Resource</u>		
Unamortized Deferred Amount on Refunding	\$ 82,876	\$ -
Deferred Outflows of Resources - Pensions	453,251	-
Total Deferred Outflows of Resources	\$ 536,127	\$ -
<u>Liabilities</u>		
Current Liabilities:		
Accounts payable	\$ 202,109	\$ 36,472
Customer deposits	360,450	-
Accrued interest	6,633	-
Due to other funds	-	-
Bonds payable	525,735	-
Total current liabilities	\$ 1,094,927	\$ 36,472
Long-term liabilities:		
Bonds payable	\$ 3,600,912	\$ -
Compensated absences payable	41,331	-
Net Pension Liability	1,514,167	-
Total long-term liabilities	\$ 5,156,410	\$ -
Total liabilities	\$ 6,251,337	\$ 36,472
<u>Deferred Inflows of Resources</u>		
Deferred Inflows of Resources - Pensions	\$ 7,978	\$ -
Total Deferred Outflows of Resources	\$ 7,978	\$ -
<u>Net Position</u>		
Net investment in capital assets	\$ 13,843,062	\$ -
Restricted for debt service and bond reserve	64,516	-
Unrestricted	2,234,886	(24,690)
Total net position	\$ 16,142,464	\$ (24,690)

The notes to the financial statements are an integral part of this statement.

City of Henderson, Texas
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended September 30, 2016

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
Operating Revenues:		
Charges for services	\$ 4,831,645	\$ 94
Total operating revenues	\$ 4,831,645	\$ 94
Operating Expenses		
Cost of sales and services	\$ 4,169,998	\$ -
Administration	594,064	1,086
Claims	-	76,084
Depreciation and amortization	913,409	-
Total operating expenses	\$ 5,677,471	\$ 77,170
Operating income (loss)	\$ (845,826)	\$ (77,076)
Nonoperating Revenues (Expenses):		
Investment earnings	\$ 9,760	\$ 62
Miscellaneous revenue	38,047	-
Interest and fiscal charges on debt	(127,564)	-
Loss on disposal of property	-	-
Total nonoperating revenues (expenses)	\$ (79,757)	\$ 62
Income (loss) Before Contributions and Transfers	\$ (925,583)	\$ (77,014)
Transfers		
Transfers in	\$ 128,399	\$ -
Transfers out	(495,340)	-
Total transfers	\$ (366,941)	\$ -
Change in Net Position	\$ (1,292,524)	\$ (77,014)
Total Net Position, Beginning	17,434,988	52,325
Total Net Position, Ending	\$ 16,142,464	\$ (24,689)

The notes to the financial statements are an integral part of this statement.

City of Henderson, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2016

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
Cash Flows from Operating Activities		
Cash received from customers	\$ 4,980,055	\$ -
Cash received from interfund services provided		94
Cash payments to suppliers and employees	(4,571,399)	(77,462)
Cash provided (used) by operating activities	<u>\$ 408,656</u>	<u>\$ (77,368)</u>
Cash Flows from Noncapital Financing Activities		
(Increase)/decrease in due from other funds	\$ 1,047,627	\$ -
Increase/(decrease) in customer deposits	9,328	-
Transfers (to)/from other funds	(492,340)	-
Cash provided (used) by noncapital financing activities	<u>\$ 564,615</u>	<u>\$ -</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	\$ (922,259)	\$ -
Nonoperating miscellaneous revenue	38,047	-
Issuance of debt	-	-
Principal repayments on long-term debt	(668,100)	-
Interest and fiscal charges on debt	(120,358)	-
Cash provided (used) by capital and related financing activities	<u>\$ (1,672,670)</u>	<u>\$ -</u>
Cash Flows from Investing Activities		
(Purchases)/Sales of investments		\$ -
Earnings on investments	9,762	59
Cash provided (used) by investing activities	<u>\$ 9,762</u>	<u>\$ 59</u>
Net Decrease in Cash and Cash Equivalents	<u>\$ (689,637)</u>	<u>\$ (77,309)</u>
Cash and Cash Equivalents, Beginning	<u>3,622,011</u>	<u>88,519</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 2,932,374</u></u>	<u><u>\$ 11,210</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	\$ (844,017)	\$ (77,076)
Adjustments to reconcile operating income to Net Cash provided (used) by operating activities:		
Depreciation	913,409	-
Pension Expense	76,392	-
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	148,410	-
Increase (decrease) in accounts payable	(3,956)	(292)
Increase (decrease) in net pension obligation accounts	124,510	-
Increase (decrease) in compensated absences payable	(6,092)	-
Total adjustments	<u>\$ 1,252,673</u>	<u>\$ (292)</u>
Net cash provided (used) by operating activities	<u><u>\$ 408,656</u></u>	<u><u>\$ (77,368)</u></u>

The notes to the financial statements are an integral part of this statement.

City of Henderson, Texas
Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2016

	<u>Firemen Retirement Pension Trust</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 9
Investments	<u>449</u>
Total Assets	<u><u>458</u></u>
<u>Liabilities</u>	
	<u>-</u>
<u>Net Position</u>	
Held in trust for pension benefits and other purposes	<u><u>\$ 458</u></u>

The accompanying notes are an integral part of this statement.

City of Henderson, Texas
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended September 30, 2016

	<u>Firemen Retirement Pension Trust</u>
Additions	
Contributions:	
Employer	\$ 2,500
Investment earnings	1
Total additions	<u>\$ 2,501</u>
Deductions	
Benefits	<u>\$ 2,700</u>
Total deductions	<u>\$ 2,700</u>
Change in Net Position	\$ (199)
Net Position, Beginning	<u>657</u>
Net Position, Ending	<u><u>\$ 458</u></u>

The accompanying notes are an integral part of this statement.

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CITY OF HENDERSON, TEXAS

Notes to the Financial Statements
September 30, 2016

I. Summary of Significant Accounting Policies

The financial statements of the City of Henderson, Texas (“City”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The City, a home-rule municipal corporation organized and existing under the provisions of the Constitution of the State of Texas, adopted its first charter on April 1, 1947, and is operating under a charter amendment date of April 6, 1985. The City operates under a council-manager form of government and, as authorized by its charter, provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization, or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Based upon the application of these criteria, the following component is included in the City's reporting entity:

Discretely Presented Component Unit

Henderson Economic Development Corporation (HEDCO) is a nonprofit corporation organized to promote and develop new or expanding employment roles within the City of Henderson or adjacent areas of Rusk County. The economic benefits provided by the corporation will benefit the City by stimulating the need for housing, retail sales, entertainment, etc. within the City. The Directors of the corporation are appointed by the City Council. Its budget must also be approved by the City Council. The ½ percent sales tax that funds HEDCO is received by the City from the State and is passed to HEDCO. (Refer to Note VI for more information.)

Complete financial statements for HEDCO may be obtained at the entity's administrative offices at 400 W. Main, Henderson, Texas 75652.

Blended Component Unit

Henderson Main Street Advisory Board, Inc. (Main Street) is a nonprofit corporation organized to create a program to revitalize the downtown business City into a regional marketplace, increase capital investment downtown, attract new business, and improve the business mix, restore downtown to its earlier social significance, and preserve the historic buildings on the square. Members of the Board are appointed by the City Council. Main Street's primary source of funding is from the City. Main Street is reported in the City's financial statements as a Special Revenue Fund “Main Street.”

B. Government-wide and Fund Financial Statements

The Government-wide Financial Statements (i.e., the Statement of Net Position and the Statement of Activities)

report information on all of the nonfiduciary activities of the primary government and its component unit. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely, to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various function activities. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the Fund Financial Statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Government-wide Financial Statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary Fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if collected within 60 days of the end of the fiscal year, with the exception of property taxes, which are recognized as revenue when received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Franchise taxes, sales taxes, hotel-motel taxes, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major Governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

The *Water and Sewer Fund* is used to account for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for bonds and certificates of obligation when due throughout the year. All costs are financed through user charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the Fund.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for revenue sources that are restricted to expenditures for specific purposes.

The *Debt Service Fund* is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The *Internal Service Fund* accounted for health insurance services provided to other departments of the City on a cost-reimbursement basis.

The *Firemen Retirement Pension Trust Fund* accounts for the accumulation of resources for pension benefits payments to qualified volunteer firefighters.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for interfund services between the City's General Fund and the Water and Sewer Fund.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Water and Sewer Fund are charges to customers for sales and services. Operating expenses for the Water and Sewer Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

Cash includes currency on hand and demand deposits with banks or other financial institutions. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. State statutes and the City's investment policy authorize the City to invest in U.S. Government obligations, certificates of deposit, money market mutual funds, and public funds investment pools.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Due to/from Other Funds" (i.e., the current portion of interfund loans) or "Advances to/from Other Funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All trade receivables are shown net of an allowance for uncollectibles.

3. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. The City bills and collects its own property taxes. In the government-wide financial statements, City property tax revenue is recognized when levied, and in the fund financial statements, City property tax revenue is recognized when collected. An allowance is established for delinquent taxes to the extent that their collectability is improbable. The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The assessment ratio of the City is 100 percent of market value.

4. Capital Assets

Capital assets, which include property, plant, equipment, water and wastewater distribution systems, and infrastructure (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City, a Phase 3 government as defined by GASB Statement No. 34, chose not to report infrastructure retroactively but only prospectively.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment is depreciated using the straight line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Vehicles	5
Improvements	5-20
Equipment	3-5
Water & Wastewater System	40-60
Infrastructure	60

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following two items that qualify for reporting in this category: unamortized deferred amount on refunding and deferred outflows of resources related to pensions

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. Unavailable Deferred Revenue related to unavailable property taxes and unavailable citations receivable are reported only in the governmental fund Balance Sheet. Additionally, the City also reflects as unearned revenue, resources that have been received, but not earned, such as deposits and law enforcement seizure funds. In the statement of financial position the City reports deferred inflows of resources related to pensions.

6. *Net Position Flow Assumption*

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. *Compensated Absences*

It is the City’s policy to permit employees to accumulate a limited amount of earned, but unused, vacation and sick leave. Upon separation from City employment, a regular employee who has completed at least one year of continuous employment will be paid for accrued and unused vacation leave up to the limit of his or her maximum allowable accumulation. No more than 160 hours for regular fulltime employees and 240 hours for firefighters can be carried over to the next year. On the employee’s anniversary date, any vacation leave balance in excess of the appropriate maximum is reduced to the maximum without compensation.

Compensatory time off (comp time) may be granted by the City in lieu of overtime pay to non-exempt employees. The maximum accrual of comp time that may be accumulated by regular full-time employees is 60 hours and by firefighters is 120. Upon termination of employment, any accrued comp time is paid to the terminated employee.

Accumulated unpaid vacation amounts and comp time are accrued as a current liability in the period they are earned in proprietary funds (using the accrual basis of accounting) and the government-wide financial statements. In governmental funds, the cost of vacation and comp time is recognized when payments are due. In the event of termination or retirement, sick pay is not paid. Therefore, no accrued liabilities for sick pay are recorded. The General Fund and the Water and Sewer Enterprise Fund are used to liquidate the accrued compensated absences liability.

8. *Long-term Obligations*

In the Government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recorded as expenses in the year incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement (TMRS) and additions to/deductions from TMRS’s Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Fund Balances – Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution or ordinance prior to the end of the fiscal year, commit fund balance. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. The City Council has authorized the City Manager or his/her designee to assign fund balance. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

10. Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the proprietary fund considers all cash, certificates of deposit, and restricted cash and certificates of deposit to be cash equivalents.

II. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net position

Exhibit 3-A on page 17 is a reconciliation between Total Fund Balances-Total Governmental Funds and Net Position-Governmental Activities. One element of that reconciliation explains that “Certain long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.” The details of this \$519,781 difference are as follows:

Delinquent Property Taxes Receivable	\$ 285,479
Outstanding Warrants Receivable	206,296
Special Assessments Receivable	<u>28,006</u>
Net Adjustment to <i>Increase</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	<u>\$ 519,781</u>

Another element of the reconciliation states that “Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$4,365,697 difference are as follows:

Certificates of Obligation Payable	\$ (3,393,863)
Unamortized Premium on Issue	(36,955)
Unamortized Deferred Loss on Refunding	15,390
Capital Lease Payable	(444,672)
Accrued Compensated Absences	(286,990)
Other Post-Employment Benefits (OPEB) Liability	(210,071)
Accrued Interest Payable	<u>(8,536)</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	<u>\$ (4,365,697)</u>

The reconciliation states that “Recognition of the City’s net pension liability and related deferred resource inflows and outflows occurs in the Statement of Net Position but is not reported in the funds.” The details of this \$3,898,055 difference are as follows:

Net Pension Liability	\$ (5,521,882)
Deferred Resource Inflow	(29,094)
Deferred Resource Outflow	<u>1,652,920</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	<u>\$ (3,898,055)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

Exhibit 4-A on page 19 is a reconciliation between Net Changes in Fund Balances-Total Governmental Funds and Changes in Net Position of Governmental Activities as reported in the Government-wide Statement of Activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$1,209,619 difference are as follows:

Capital Outlay Expenditures	\$ 2,606,496
Depreciation Expense	\$ (824,620)
Dispositions	<u>(572,257)</u>
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	<u>\$ 1,209,619</u>

Another element of the reconciliation states that “Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$10,688 difference are as follows:

Current Year Increase/(Decrease) in Net Property Taxes Receivable	\$ 18,174
Current Year Increase/(Decrease) in Net Outstanding Warrants Receivable	(7,486)
	<hr/>
Net Adjustment to <i>Decrease</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	\$ 10,688
	<hr/> <hr/>

Another element of the reconciliation states that “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.” The details of this \$130,399 difference are as follows:

Principal Payments on Certificates of Obligation	\$ 611,900
Capital Lease Inception	\$ (444,672)
Increase in OPEB Liability	(12,604)
(Increase)/Decrease in Accrued Compensated Absences	(24,225)
	<hr/>
Net Adjustment to <i>Decrease</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	\$ 130,399
	<hr/> <hr/>

Another element of the reconciliation states that “Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$1,292 difference are as follows:

Amortization of Deferred Loss on Refunding	\$ (7,048)
Amortization of Bond Premium	4,444
(Increase)/Decrease in Accrued Interest Payable	1,312
	<hr/>
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Assets-Governmental Activities	\$ (1,292)
	<hr/> <hr/>

III. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for all governmental funds except the Street Renovation Fund, Drug Seizure Fund, Task Force Fund, TCDP Street Grant Fund, Cemetery Fund, Civic Center Fund, Parks Fund, and Animal Shelter Improvement Fund. Additionally, the Water and Sewer Enterprise Fund is budgeted. Encumbrance accounting is employed in all funds. Encumbrances outstanding at year-end are cancelled. All annual appropriations lapse at fiscal year end.

The City budgets on a departmental basis, without regard to whether expenditures are current, capital, debt service, or a transfer to another fund. Additionally, transfers from other funds and carryovers from prior years are budgeted as revenue. During the year ended September 30, 2016, the City revised its budget.

Total appropriations for all departments of the City may not exceed the reasonable and anticipated revenues of the City in excess of fixed charges for the year. Formal budgetary integration is employed as a management control device during the year for the General Fund, Debt Service Fund, and Special Revenue Funds, as well as the Water and Sewer Enterprise Fund. For the year ended September 30, 2016, actual expenditures were below budgeted amounts in every department.

IV. Detailed Notes on all Funds

A. Deposits and Investments

Deposits

At September 30, 2016, the carrying amount of the City's deposits with financial institutions, including time deposits and certificates of deposits, was \$11,824,283 and the bank balance was \$11,915,525. The bank balance was fully covered by federal depository insurance or collateral held by the pledging financial institution's agent in the City's name.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

During the year ended September 30, 2016, the City invested in certificates of deposit with its depository bank and a public funds investment pool. The City's investment in the public funds investment pool as of September 30, 2016, is shown below.

<u>Investment or Investment Type</u>	<u>Weighted Avg Maturity</u>	<u>Fair Value</u>
TexSTAR	45 days	\$ 39,880
Total Investments		<u>\$ 39,880</u>

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

- Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The City's investment policy limits its investments to U.S. government securities, investment pools, certificates of deposit, and money market funds. The City was not significantly exposed to credit risk.

At September 30, 2016, the City's investments, other than those which are obligations of or guaranteed by the U.S. Government, are rated as to credit quality as follows:

<u>Investment</u>	<u>S&P Rating</u>
TexSTAR	AAAm

- Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. The City was not exposed to custodial credit risk.

- Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy limits the concentration of its investments by investment type. The City was not exposed to concentration of credit risk.

- Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The City was not exposed to interest rate risk.

- Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. The City does not engage in foreign currency transactions. The City was not exposed to foreign currency risk.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The City's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is a 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940.

TexSTAR

The City invests in the Texas Short Term Asset Reserve Program (TexSTAR), which has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is managed by a five-member board of directors (Board). In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR.

Advisory board members are appointed and serve at the will of the Board of Directors. J.P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Company (FSC) serve as co-administrators for TexSTAR under an agreement with the Board. JPMIM provides investment management services, and FSC provides participant services and marketing. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. Transfer Agency Services are provided by Boston Financial Data Services, Inc. The business affairs managed by the Board in accordance with its bylaws. The bylaws set forth procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through various reporting requirements. TexSTAR is rated AAAM by Standard and Poor's and is not operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which generally approximates the market value of the securities. The stated objective of TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water & Sewer Enterprise	Other Funds Aggregate	Total
Receivables:				
Taxes	\$ 1,501,399	\$ -	\$ 77,607	\$ 1,579,006
Accounts	426,067	661,674	108,608	1,196,349
Other Governments	-	-	-	-
Special Assessments	-	-	28,006	28,006
Other	43,614	4	-	43,618
Gross receivables	1,971,080	661,678	214,221	2,846,979
Less: allowance for uncollectibles	(270,261)	(12,874)	-	(283,135)
Net total receivables	<u>\$ 1,700,819</u>	<u>\$ 648,804</u>	<u>\$ 214,221</u>	<u>\$ 2,563,844</u>

The only receivables not expected to be collected within one year are \$28,006 of Special Assessment receivables in the Street and Drainage Special Revenue Fund.

Governmental funds report deferred revenue (deferred inflows of resources) in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
General fund:			
Delinquent property taxes receivable	\$ 286,112	\$ -	\$ 286,112
Warrants	206,296	-	206,296
Other governmental funds:			
Seizures	-	23,840	23,840
Deposits	-	34,513	34,513
Special Assessments	-	28,795	28,795
Total governmental funds	<u>\$ 492,408</u>	<u>\$ 87,148</u>	<u>\$ 579,556</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Primary Government</u>				
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,382,278	\$ -	\$ -	\$ 1,382,278
Construction in progress	632,566	1,015,570	572,257	1,075,879
Total capital assets not being depreciated	<u>2,014,845</u>	<u>1,015,570</u>	<u>572,257</u>	<u>2,458,157</u>
Capital assets being depreciated:				
Buildings	9,339,488	33,603	-	9,373,091
Improvements other than buildings	3,438,420	67,245	33,603	3,472,062
Motor Vehicles	1,228,817	90,595	118,999	1,200,413
Equipment	2,832,332	41,106	-	2,873,438
Infrastructure	16,008,961	1,358,377	-	17,367,337
Total capital assets being depreciated	<u>32,848,018</u>	<u>1,590,926</u>	<u>152,602</u>	<u>34,286,342</u>
Less accumulated depreciation:				
Buildings	1,685,846	228,793	-	1,914,639
Improvements other than buildings	1,781,455	66,832	33,603	1,814,684
Motor Vehicles	1,010,898	96,777	118,999	988,676
Equipment	2,285,718	143,012	-	2,428,730
Infrastructure	1,703,457	289,206	-	1,992,663
Total accumulated depreciation	<u>8,467,373</u>	<u>824,620</u>	<u>152,602</u>	<u>9,139,391</u>
Total capital assets being depreciated, net	<u>24,380,645</u>	<u>766,306</u>	<u>-</u>	<u>25,146,951</u>
Governmental activities capital assets, net	<u>\$ 26,395,490</u>	<u>\$ 1,781,876</u>	<u>\$ 572,257</u>	<u>\$ 27,605,109</u>
<u>Primary Government</u>				
<u>Business-type Activities</u>				
Capital assets not being depreciated:				
Land	\$ 410,130	\$ -	\$ -	\$ 410,130
Construction in progress	204,435	610,790	815,225	-
Total capital assets not being depreciated	<u>614,565</u>	<u>610,790</u>	<u>815,225</u>	<u>410,130</u>
Capital assets being depreciated:				
Water and Wastewater Distribution	28,258,488	985,359	-	29,243,847
Equipment	1,605,422	141,334	21,274	1,725,482
Total capital assets being depreciated	<u>29,863,910</u>	<u>1,126,693</u>	<u>21,274</u>	<u>30,969,329</u>
Less accumulated depreciation:				
Water and Wastewater Distribution	11,443,444	840,037	-	12,283,481
Equipment	1,099,883	73,372	21,274	1,151,981
Total accumulated depreciation	<u>12,543,327</u>	<u>913,409</u>	<u>21,274</u>	<u>13,435,462</u>
Total capital assets being depreciated, net	<u>17,320,583</u>	<u>213,284</u>	<u>-</u>	<u>17,533,867</u>
Business-type activities capital assets, net	<u>\$ 17,935,148</u>	<u>\$ 824,074</u>	<u>\$ 815,225</u>	<u>\$ 17,943,997</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:		
General government		\$ 91,095
Public safety		551,795
Public services		181,730
Total depreciation expense - governmental activities		<u>\$ 824,620</u>
Business-type activities:		
Water and sewer		<u>\$ 913,409</u>
Total depreciation expense - business-type activities		<u><u>\$ 913,409</u></u>

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2016, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and Sewer	Tourism	\$ 1,914
Water and Sewer	2012 Bond Fund	313,313
Total		<u>\$ 315,227</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers:

	<u>Transfers In</u>					<u>Total</u>
	<u>General</u>	<u>Water & Sewer</u>	<u>Street & Drainage</u>	<u>General Construction</u>	<u>Main Street</u>	
Transfers out:						
General	\$ -	\$ 128,399	\$ 604,375	\$ 178,296	\$ 17,000	\$ 928,070
Tourism	3,000	-	-	-	-	3,000
Water and sewer	492,340	-	-	-	-	492,340
Total transfers	<u>\$ 495,340</u>	<u>\$ 128,399</u>	<u>\$ 604,375</u>	<u>\$ 178,296</u>	<u>\$ 17,000</u>	<u>\$ 1,423,410</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires collecting them to the fund that statute or budget requires expending them, and (2) use unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

General Obligation Bonds, Certificates of Obligation, Revenue Bonds, and Capital Leases

The City issues general obligation bonds, certificates of obligation, and revenue bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and certificates of obligation have

been issued for both governmental and business-type activities. Revenue bonds have been issued for business-type activities. These debt obligations are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenue. The original amount of outstanding general obligation bonds and certificates of obligation issued in prior years was \$11,947,600. Long-term debt in the form of capital leases was issued in the current year.

General obligation bonds and certificates of obligation are direct obligations and pledge the full faith and credit of the City. Original issue amounts currently outstanding are as follows:

Purpose	Interest Rates	Original Issue Amount
Governmental activities:		
2011 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	2.25%-4.0%	1,050,000
2012 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	0.88%-3.16%	1,800,000
2014 General Obligation Refunding Bonds	2.00% - 2.50%	2,050,000
2016 Henderson Federal Savings Bank Capital Lease	3.00%	444,672
Business-type activities:		
2004 General Obligation Refunding Bonds	2.0%-4.8%	735,000
2011 General Obligation Refunding Bonds	2.0%-3.0%	3,340,000
2012 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	0.88%-3.16%	2,002,600
2014 General Obligation Refunding Bonds	2.00% - 2.50%	970,000
Total General Obligation Bonds and Certificates of Obligation		<u>\$ 12,392,272</u>

Annual debt service requirements to maturity for the City for general obligation bonds, certificates of obligation, revenue bonds, and capital leases are as follows:

Year Ending September 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	648,054	101,929	749,983	525,735	104,027	629,762
2018	674,218	87,825	762,042	570,735	92,744	663,479
2019	692,781	71,471	764,253	568,370	78,312	646,682
2020	261,381	54,314	315,695	526,005	65,223	591,228
2021-2025	1,421,693	153,372	1,575,065	1,910,090	128,742	2,038,832
2026	140,611	5,118	145,729	-	-	-
Total	<u>\$ 3,838,737</u>	<u>\$ 474,030</u>	<u>\$ 4,312,767</u>	<u>\$ 4,100,935</u>	<u>\$ 469,048</u>	<u>\$ 4,569,983</u>

Debt Refunding

GASB Statement No. 7 "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of September 30, 2016, outstanding balances of debt issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows:

<u>Debt Issue</u>	<u>September 30, 2016</u>
City of Henderson 2001 Waterworks and Sewer System Revenue Bonds	\$ 2,200,000
City of Henderson 2009 Tax Notes	430,000
City of Henderson 2004 Waterworks and Sewer System Revenue Bonds	1,100,000
City of Henderson 2004 Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligations	2,050,000

Changes in Long-Term Debt

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Certificates of Obligation	\$ 4,005,763	\$ -	\$ 611,698	\$ 3,394,065	\$ 609,265
Add: Premium On Issue	41,399	-	4,444	36,955	-
Capital Lease	-	444,672	-	444,672	38,789
OPEB Liability	197,467	12,604	-	210,071	-
Compensated absences	262,765	24,225	-	286,990	-
Net Pension Liability	4,284,430	1,237,453	-	5,521,882	-
Governmental activity					
Long-term liabilities	<u>\$ 8,791,824</u>	<u>\$ 1,718,954</u>	<u>\$ 616,142</u>	<u>\$ 9,894,635</u>	<u>\$ 648,054</u>
Business-type activities					
General obligation bonds	\$ 3,080,000	\$ -	\$ 510,000	\$ 2,570,000	\$ 365,000
Add: Premium on issue	21,830	-	2,424	19,406	-
Certificates of Obligation	1,689,035	-	158,100	1,530,935	160,735
Revenue bonds	-	-	-	-	-
Total bonds payable	<u>4,790,865</u>	<u>-</u>	<u>670,524</u>	<u>4,120,341</u>	<u>525,735</u>
Compensated absences	\$ 47,423	\$ -	\$ 6,092	\$ 41,331	\$ -
Net Pension Liability	1,174,844	339,323	-	1,514,167	-
Business-type activities					
Long-term liabilities	<u>\$ 6,013,132</u>	<u>\$ 339,323</u>	<u>\$ 676,616</u>	<u>\$ 5,675,839</u>	<u>\$ 525,735</u>

Compensated absences are liquidated by the General Fund or the Water & Sewer Enterprise Fund, depending upon which fund records the employee's salary.

F. Commitments Under Noncapitalized Leases

Commitments under operating lease agreements for equipment provide for minimum future rental payments as of September 30, 2016, as follows:

<u>Year Ending September 30,</u>	
2017	\$ 12,776
2018	10,705
2019	7,620
2020	3,598
2021	1,820
Total Minimum Rentals	<u>\$ 36,519</u>
Rental Expenditures in 2016	<u>\$ 12,277</u>

G. Fund Balances

Components of nonspendable fund balance and specific purposes for restricted and committed fund balances as of September 30, 2016 are as follows:

City of Henderson, Texas	
<u>Fund Balances - Governmental Funds</u>	
Nonspendable:	
Cemetery Endowment	\$ 65,500
Restricted:	
Municipal Court	42,716
Debt Service	51,903
Fire Department	10,995
Law Enforcement	44,642
Tourism	194,707
2012 Series Certificates of Obligation	80,925
Grants	45
Committed:	
Main Street	35,510
Cemetery	71,572
Street & Drainage	887,424
Animal Shelter	20,591
General Construction	859,012
Unassigned:	
General Fund	6,818,521
Civic Center	<u>(14,382)</u>
Total Fund Balances	<u>\$ 9,169,681</u>

V. Other Information

A. Risk Management

The City of Henderson, Texas is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. There have been no significant reductions in insurance coverages during the year ended September 30, 2016. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Also, the City of Henderson, Texas is a member of the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool, participating in workers' compensation, general liability, law enforcement liability, errors and omissions liability, automobile liability, automobile physical damage and real and personal property coverages.

During the year ended September 30, 2016, employees of the City were covered by a health insurance plan (the Plan). The City contributes 100% of the cost for employee coverage and 50% of the cost for dependent coverage to the Plan and, employees electing dependent coverage authorize payroll withholding to pay the balance of contributions for their dependents.

B. Contingencies and Commitments

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

On November 16, 2006, the City entered into an agreement with Angelina and Nacogdoches Counties Water Control and Improvement District No. 1 ("District") to acquire the option to purchase from the District up to four (4) million gallons of water per day. In consideration for the option granted by the District, the City shall pay \$150,000 annually for each year of the option. The option is for a term commencing as of the date executed and terminating on the earlier of (1) the date the parties enter into a water supply agreement, or (2) September 30, 2016, unless extended pursuant to a written agreement executed by the parties. The annual payment is reported by the City's Water and Sewer Fund as an operating expense.

On April 12, 2011, the City entered into an additional agreement with Angelina and Nacogdoches Water Control and Improvement District No. 1 ("District") to acquire the option to purchase from the District an additional three million four hundred thousand gallons of water per day. In consideration for the option granted by the District, the City shall pay \$127,500 annually for each year of the option. The option is for a term commencing as of the date executed and terminating on the earlier of (1) the date the parties enter into a water supply agreement, or (2) September 30, 2021, unless extended pursuant to a written agreement executed by the parties. The annual payment is reported by the City's Water and Sewer Fund as an operating expense.

No reportable litigation was pending against the City as of September 30, 2016.

C. Pension Plan

Plan Description:

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the

TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. All eligible employees of the City are required to participate in TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; In addition, the report is available on TMRS' website at www.TMRS.org.

Benefits Provided:

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Plan provisions for the City were as follows:

	<u>Plan Year 2015</u>	<u>Plan Year 2016</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/25	60/5,0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>2014</u>	<u>2015</u>
Inactive employees or beneficiaries currently receiving benefits	65	68
Inactive employees entitled to but not yet receiving benefits	53	59
Active employees	<u>115</u>	<u>117</u>
	233	244

Contributions:

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Henderson were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rate for the City were 15.31% and 15.52% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$876,745 and were equal to the required contributions.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2015 valuation is effective for rates beginning January 2017).

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rate for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 103%. The rate are projected on a fully generational basis by scale BB to account for future mortality improvements. For disable annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. These assumptions apply to both the Pension Trust and the Supplemental Death Benefits Fund as applicable.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimate s of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a)-(b)</u>
Balance at 12/31/14	\$ 28,182,528	\$ 22,723,254	\$ 5,459,274
Changes for the year:			
Service Cost	870,520	-	870,520
Interest	1,956,707	-	1,956,707
Change in benefit terms	-	-	-
Difference between expected/actual experience	(24,907)	-	(24,907)
Changes in assumptions	76,020	-	76,020
Contributions - employer	-	881,591	(881,591)
Contributions - employee	-	407,874	(407,874)
Net investment income	-	33,532	(33,532)
Benefits payments, including refunds of employees contributions	(1,329,666)	(1,329,666)	-
Administrative expenses	-	(20,423)	20,423
Other charges	-	(1,009)	1,009
Net Changes	1,548,674	(28,101)	1,576,775
Balance at 12/31/15	\$ 29,731,202	\$ 22,695,153	\$ 7,036,049

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 11,868,685	\$ 7,036,049	\$ 3,167,872

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the city recognized pension expense in the amount of \$1,221,236.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$ 37,071
Changes in actuarial assumptions	59,880	-
Differences between projected and actual investment earnings (net of current year amortization)	1,410,624	-
Contributions subsequent to the measurement date	635,667	-
Total	<u>\$ 2,106,171</u>	<u>\$ 37,071</u>

\$635,667 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	
2016	\$ 371,079
2017	371,079
2018	372,150
2019	319,125
2020	-
Thereafter	-

D. Other Post-Employment Benefits

Effective for fiscal year 2010 the City implemented GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)" prospectively (no beginning Net OPEB Obligation).

Retiree Health Insurance:

Normal Retirement Benefit Eligibility

To be eligible for retiree health benefits, employees must meet the following criteria:

- An employee must be eligible to retire under the standards of retirement as established by TMRS to qualify for benefits.
- An employee and their dependents covered under the City's health plan at the effective date of the employee's retirement and not eligible for Medicare.
- An employee must have completed fifteen (15) years of consecutive service prior to retirement with the City.

Vested Termination Benefits

Members terminating before normal retirement conditions are not eligible for retiree health care.

Death-in-Service Retirement Benefits

The City does not provide death-in-service benefits to a surviving spouse.

Disability Retirement Benefits (Non-Duty and Duty)

Employees who retire under a disability retirement are immediately eligible for retiree health care benefits.

Dental/Vision Coverage

Dental and vision benefits may be continued with the retiree paying 100% of the full active employee cost.

City Contributions to the Plan

Effective October 1, 2013, the City provides a monthly subsidy to retirees with 15 or more years of service with the City at retirement. The following schedule outlines years of service with the resulting subsidy paid by the City.

<u>Years of Service with the City</u>	<u>Amount of Premium Paid by the City (Monthly)</u>
15 years	\$150
20 years	200
25 years	250
30 years	300
35 years	350

Funding Policy and Annual OPEB Cost

The City's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City's annual OPEB cost for the fiscal year ending September 30, 2016, is as follows:

Annual Required Contribution	\$ 38,976
Interest on OPEB Obligation	8,886
Adjustment to ARC	<u>(8,234)</u>
End of Year Annual OPEB Cost (Expense)	39,628
Net Estimated Employer Contributions	<u>(27,025)</u>
Increase in Net OPEB Obligation	12,603
Beginning of Year Net OPEB Obligation (Asset)	<u>197,467</u>
End of Year Net OPEB Obligation (Asset)	<u>\$ 210,070</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending September 30, 2016 and the preceding two fiscal years were as follows:

Fiscal Year <u>Ended</u>	Annual OPEB <u>Cost</u>	Employer		Net OPEB <u>Obligation</u>
		<u>Amount Contributed</u>	<u>Percentage Contributed</u>	
9/30/2014	55,693	1,131	2.03%	142,723
9/30/2015	55,874	1,131	2.02%	197,466
9/30/2016	39,628	27,025	68.20%	210,071

Funding Status and Funding Progress

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of December 31, 2011, October 1, 2013, and October 1, 2015 is as follows:

<u>Actuarial Valuation Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial		Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>
		Accrued Liability Liability (AAL) <u>(b)</u>			
12/31/2011	-	\$ 212,891	\$ 212,891	0%	
10/1/2013	-	521,839	521,839	0%	
10/1/2015	-	454,833	454,833	0%	

Under the reporting parameters, the City's retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$454,833 at October 1, 2015.

Actuarial Methods and Assumptions

The projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions

Inflation rate	3.00% per annum
Investment rate of return	4.50% net of expenses
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Salary Growth	3.00% per annum
Healthcare cost trend rate	8.00% for FY2016 declining to 4.5% in FY2022 and later

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

TMRS Supplemental Death Benefit Fund

Plan Description and Participants

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefit Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions and Funding Policy

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions for retirees to the TMRS SDBF for the fiscal years ended September 30, 2016, 2015, and 2014 were \$3,402, \$2,759, and \$2,763, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates (Retiree-only portion of the rate)

<u>Plan/Fiscal Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (b)</u>	<u>Percentage of ARC Contributed</u>
2014	0.05%	0.05%	100.00%
2015	0.05%	0.05%	100.00%
2016	0.06%	0.06%	100.00%

E. Joint Venture

On February 11, 1994, the City entered into a contract with the Sabine River Authority of Texas (SRA) and the City of Kilgore for the purchase of raw water. The contract provided for the construction of a raw water pump station and related facilities, and for the issuance of debt to finance the construction project. In consideration of the payments to the SRA under the contract, the City is entitled to a proportionate share of the raw water output equal to 4.5/10.5. The City’s annual payment to the SRA is calculated by determining its percentage of the water delivered and multiplying that times the total operation and maintenance expenses. The agreement continues in effect throughout the entire useful life of the project.

F. Commitments and Contingencies

1. Litigation

No reportable litigation was pending against the City at September 30, 2016.

2. Commitments

The City has active projects as of September 30, 2016. At year-end, the City’s remaining contractual commitments with contractors and architects totaled, \$9,400 for the animal shelter construction, \$3,000 for Fire Station #2 Renovation, \$3,680 for the pocket park, \$13,403 for the Civic Center addition, \$717,000 for street projects, and \$64,000 for a zoning plan.

VI. Henderson Economic Development Corporation

Henderson Economic Development Corporation is a nonprofit corporation created and organized under the constitution and laws of the State of Texas, particularly the Development Corporation Act of 1979, Article 5190.6 (the “Act”), Vernon’s Annotated Texas Civil Statutes, as amended for the promotion and/or development of new and/or expanding employment rolls within the City of Henderson, and/or Rusk County, Texas, and/or adjacent areas that will provide economic benefits to the City, and/or creation of jobs within Rusk County and, in some instances, adjoining counties that will stimulate the need for housing, retail sales, entertainment, etc. with the City. HEDCO is governed by Section 4A of the Act and is a constituted authority and instrumentality of the City of Henderson, Texas (the “City”).

HEDCO was created in January 1992 with revenue generated from a ½ of 1% sales tax passed by vote of the citizens of the City of Henderson with the proceeds dedicated to economic development.

HEDCO is governed by a board of five directors. All directors are appointed by the City Council of the City for a term of three (3) years, except the director representing banking institutions, who is appointed for a term of one (1) year. The City Council must also approve HEDCO’s budget. HEDCO is exempt from federal income tax as an organization described in Section 501(c)(6) of the Internal Revenue Code.

Budgetary Information

HEDCO's budget is adopted on a basis consistent with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), except that HEDCO budgets a portion of its fund balance as "contingency funds" available for appropriation, and loans made to other entities are reported as expenditures.

The original budget is adopted by the Board of Directors prior to the beginning of the fiscal year. The legal level of control is the total approved budget for the General fund. All amendments to the budget must be approved by the Board. In addition, HEDCO's budget and any amendments must be approved by the City of Henderson. During the year ended September 30, 2016, HEDCO revised its budget. Appropriations lapse at the end of the year.

A. Deposits and Investments

HEDCO's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with HEDCO's agent bank approved pledged securities in an amount sufficient to protect HEDCO funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Deposits:

At September 30, 2016, the carrying amount of HEDCO's deposits (cash, certificates of deposit, and interest-bearing money-market accounts) was \$4,359,315 and the bank balance was \$4,360,014. HEDCO's cash deposits at September 30, 2016 and during the period ended September 30, 2016 were entirely covered by FDIC insurance or by pledged collateral held by HEDCO's agent bank in HEDCO's name.

2. Investments:

HEDCO is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, HEDCO adhered to the requirements of the Act. Additionally, investment practices of HEDCO were in accordance with local policies.

The Act determines the types of investments which are allowable for HEDCO. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

During the year ended September 30, 2016, HEDCO had no investments. All HEDCO's deposits were in demand deposits, including a money market account.

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether HEDCO was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

- a. Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, HEDCO was not exposed to credit risk.

- b. Custodial Credit Risk
Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in HEDCO's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in HEDCO's name.

At year end, HEDCO was not exposed to custodial credit risk.

- c. Concentration of Credit Risk
This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, HEDCO was not exposed to concentration of credit risk.

- d. Interest Rate Risk
This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, HEDCO was not exposed to interest rate risk.

- e. Foreign Currency Risk
This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, HEDCO was not exposed to foreign currency risk.

B. Receivables

Receivables at September 30, 2016 are as follows:

Sales Taxes (from City of Henderson)	\$ 240,136
Notes Receivable	<u>993,334</u>
Total	<u>\$ 1,233,470</u>

Notes Receivable:

On November 13, 2009, HEDCO loaned the Rusk County Rural Rail District ("Rail District") the sum of \$1,200,000 to assist the Rail District in securing the Henderson-Overton Railroad. The loan will be repaid to HEDCO over a fifteen (15) year period, beginning on the first day after the thirty-seventh (37th) month after the execution of the agreement, which was December 1, 2012. The monthly payment was originally \$6,667; however, the Rail District requested that their monthly payments be reduced to \$3,333 for 12 months. The Rail District resumed full payments on October 1, 2015.

C. Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital assets, not being depreciated:				
Land and Investment Property	\$1,512,894	\$ 399,815	\$ 788,822	\$ 1,123,887
Discretely Presented Component Unit capital assets, net	<u>\$1,512,894</u>	<u>\$ 399,815</u>	<u>\$ 788,822</u>	<u>\$ 1,123,887</u>

D. Long-Term Debt

In November 2008, HEDCO entered into a \$1,400,000 loan agreement to provide the necessary financing to satisfy its commitment to the civic center project. The loan is secured by a 100% pledge of the levy of the economic development sales tax. Monthly payments on the note are \$13,837.84, including interest at 3.49%.

Long-term liability activity for the year ended September 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Notes payable	\$ 215,362	\$ -	\$ 215,362	\$ -	\$ -
Governmental activities					
Long-term liabilities	<u>\$ 215,362</u>	<u>\$ -</u>	<u>\$ 215,362</u>	<u>\$ -</u>	<u>\$ -</u>

E. Risk Management

HEDCO is exposed to various risks of loss related to torts, injury to persons on HEDCO property, errors and omissions and injuries to employees. HEDCO carries commercial insurance for injuries to employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

HEDCO is covered by the City of Henderson through its coverage with the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool, participating in general liability and errors and omissions liability.

F. Contingencies and Commitments

HEDCO has entered into incentive agreements with various entities to encourage economic growth in the City of Henderson and the surrounding area. Generally, the agreements provide money and facilities to new and existing entities in the area for economic development and creating and maintaining jobs. In all of the agreements, the entities must maintain a certain level of employment in order to receive the incentives.

G. Retirement Plan

HEDCO has adopted a defined contribution pension plan administered by the Kansas City Life Insurance Company. Employees are eligible to participate at age 21 with one (1) year of eligible service. Benefits fully vest upon reaching one (1) year of service. HEDCO contributes 7% of each participant's eligible compensation. The payroll for employees covered by the plan and HEDCO's total payroll for the year ended September 30, 2016 was \$144,910. Employer contributions to the plan for the year ended September 30, 2016 were \$10,144.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

City of Henderson, Texas
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budgetary Basis)
For the Year Ended September 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive/ <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues and Other Sources:				
Taxes:				
Sales	\$ 5,820,050	\$ 5,820,050	\$ 5,657,014	\$ (163,036)
Property	2,815,000	2,815,000	2,755,333	(59,667)
Franchise	628,000	628,000	630,452	2,452
Permits & fees	87,000	87,000	95,027	8,027
Charges for services	2,157,137	2,157,137	2,081,276	(75,861)
Fines & Forfeitures	440,350	440,350	426,269	(14,081)
Intergovernmental	91,521	438,320	450,904	12,584
Miscellaneous	82,000	175,133	164,970	(10,163)
Transfers in	444,500	444,500	444,500	-
Total revenues and other sources	<u>\$ 12,565,558</u>	<u>\$ 13,005,490</u>	<u>\$ 12,705,745</u>	<u>\$ (299,745)</u>
Expenditures and Other Uses:				
General government:				
Administration	\$ 506,945	\$ 525,915	\$ 484,775	\$ 41,140
Finance	305,210	305,210	274,610	30,600
Municipal court	322,966	322,966	297,346	25,620
Nondepartmental	2,743,571	3,015,943	2,805,829	210,114
Public safety				
Police	2,933,414	3,011,892	2,910,588	101,304
Fire	1,478,817	1,577,063	1,572,392	4,671
Sanitation	1,670,000	1,670,000	1,611,793	58,207
Public services:				
Streets	1,869,749	1,869,749	1,773,920	95,829
Parks	63,500	74,583	70,775	3,808
Activity center	12,800	12,800	7,496	5,304
Cemeteries	6,000	6,000	5,714	286
Community development	471,952	471,952	332,481	139,471
Animal control	180,634	180,634	155,203	25,431
Total expenditures and other uses	<u>\$ 12,565,558</u>	<u>\$ 13,044,707</u>	<u>\$ 12,302,922</u>	<u>\$ 741,785</u>
Net Change in Fund Balances	\$ -	\$ (39,217)	\$ 402,823	\$ 442,040
Fund Balances, Beginning	<u>6,943,702</u>	<u>6,943,702</u>	<u>6,943,702</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 6,943,702</u>	<u>\$ 6,904,485</u>	<u>\$ 7,346,525</u>	<u>\$ 442,040</u>

City of Henderson, Texas
Reconciliation of the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual-
(Budgetary Basis)-General Fund to the Statement of Revenues, Expenditures and Changes in Fund Balances-
Governmental Funds
For the Year Ended September 30, 2016

Total revenues and other sources - Exhibit A-1	\$	12,705,745
HEDCO sales tax		(1,410,567)
Interest earned - Equipment Replacement Fund		544
Misc. Revenue - Equipment Replacement Fund		-
Interfund transfer from Tourism - General Fund		(4,500)
Interfund transfer from Water & Sewer Fund - General Fund		(440,000)
		(440,000)
Total revenues - General Fund - Exhibit 4 (Page 18)	\$	10,851,222
Total expenditures and other uses - Exhibit A-1	\$	12,302,922
HEDCO sales tax		(1,410,567)
Capital expenditures - Equipment Replacement Fund		166,723
Interfund transfer - Street & Drainage Fund		(604,375)
Interfund transfer - Water & Sewer Fund		(128,399)
Interfund transfer - Equipment Replacement Fund		(133,563)
Interfund transfer - General Construction Fund		(178,296)
Interfund transfer - Main Street Fund		(17,000)
		(17,000)
Total expenditures - General Fund - Exhibit 4 (Page 18)	\$	9,997,445
Net change in fund balances - Exhibit A-1	\$	402,823
Revenues and other sources - Equipment Replacement Fund		188,318
Other financing sources - capital lease		444,672
Expenditures and other uses - Equipment Replacement Fund		(167,094)
		(167,094)
Net change in fund balances - General Fund - Exhibit 4 (Page 18)	\$	868,719

City of Henderson
Schedule of Changes in
Net Pension Liability and Related Ratios
For the Year Ended September 30, 2016

	2015	2014
Total Pension Liability		
Service cost	\$ 870,520	\$ 747,767
Interest (on the total pension liability)	1,956,707	1,860,288
Changes of benefit terms	-	-
Difference between expected and actual experience	(24,907)	(29,800)
Change of assumptions	76,020	-
Benefit payments, including refunds of employee contributions	(1,329,666)	(1,194,775)
Net Change in Total Pension Liability	1,548,674	1,383,480
Total Pension Liability - Beginning	28,182,528	26,799,048
Total Pension Liability - Ending (a)	\$ 29,731,202	\$ 28,182,528
 Plan Fiduciary Net Position		
Contributions - employer	881,591	834,375
Contributions - employee	407,874	374,069
Net investment income	33,532	1,229,656
Benefit payments, including refunds of employee contributions	(1,329,666)	(1,194,775)
Administrative expense	(20,423)	(12,837)
Other	(1,009)	(1,055)
Net Change in Plan Fiduciary Net Position	(28,101)	1,229,433
Plan Fiduciary Net Position - Beginning	22,723,254	21,493,821
Plan Fiduciary Net Position - Ending (b)	\$ 22,695,153	\$ 22,723,254
 Net Pension Liability - Ending (a) - (b)	\$ 7,036,049	\$ 5,459,274
 Plan Fiduciary Net Position as a Percentage of Pension Liability	76.33%	80.63%
 Covered Employee Payroll	\$ 5,826,773	\$ 5,341,732
 Net Pension Liability as a Percentage of Covered Payroll	120.75%	102.20%

City of Henderson
Schedule of Contributions
For the Year Ended September 30, 2016

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 876,745	\$ 851,005
Contributions in relation to actuarially determined contribution	<u>(876,745)</u>	<u>(851,005)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 5,670,442	\$ 5,518,780
Contributions as a percentage of covered employee payroll	15.46%	15.42%

City of Henderson
Notes to the Schedule of Contributions
For the Year Ended September 30, 2016

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information: There were no benefit changes during the year.

**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS**

City of Henderson, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2016

	Special Revenue	Debt Service	Capital Projects	Total
<u>Assets</u>				
Cash and Cash Equivalents	\$ 807,094	\$ 48,668	\$ 1,613,051	\$ 2,468,813
Investments	6,006	3,235	2,255	11,496
Receivables (net of allowance for uncollectibles):				
Taxes:				
Franchise	-	-	64,977	64,977
Hotel/Motel	12,630	-	-	12,630
Accounts	-	-	108,608	108,608
Special assessments	-	-	28,006	28,006
Due from Other Funds	-	-	-	-
Total Assets	<u>\$ 825,730</u>	<u>\$ 51,903</u>	<u>\$ 1,816,897</u>	<u>\$ 2,694,530</u>
<u>Liabilities</u>				
Accounts Payable	\$ 10,173	\$ -	\$ 56,007	\$ 66,180
Due to Other Funds	315,227	-	-	315,227
Unearned Revenue	58,353	-	28,795	87,148
Total Liabilities	<u>\$ 383,753</u>	<u>\$ -</u>	<u>\$ 84,802</u>	<u>\$ 468,555</u>
<u>Fund Balances</u>				
Restricted	\$ 233,379	\$ 51,903	\$ 41	\$ 285,323
Committed	222,980	-	1,732,054	1,955,034
Unassigned	(14,382)	-	-	(14,382)
Total Fund Balances	<u>\$ 441,977</u>	<u>\$ 51,903</u>	<u>\$ 1,732,095</u>	<u>\$ 2,240,357</u>
Total Liabilities and Fund Balances	<u>\$ 825,730</u>	<u>\$ 51,903</u>	<u>\$ 1,816,897</u>	<u>\$ 2,708,912</u>

City of Henderson, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2016

	Special Revenue	Debt Service	Capital Projects	Total
Revenues:				
Taxes:				
Property	\$ -	\$ 743,115	\$ 212,666	\$ 955,781
Franchise	-	-	-	-
Hotel/Motel	154,608	-	-	154,608
Charges for services	108,758	-	386,157	494,915
Intergovernmental	-	-	-	-
Interest	3,248	369	4,736	8,353
Miscellaneous	205,190	-	42,929	248,119
Total revenues	<u>\$ 471,804</u>	<u>\$ 743,484</u>	<u>\$ 646,488</u>	<u>\$ 1,861,776</u>
Expenditures:				
Current:				
General Government				
Nondepartmental	\$ -	\$ -	\$ 8,025	\$ 8,025
Public Safety:				
Police	5,791	-	-	5,791
Sanitation	-	-	16,766	16,766
Public Services:				
Tourism	190,551	-	-	190,551
Civic Center	146,269	-	-	146,269
Main Street	23,381	-	-	23,381
Streets	-	-	180,790	180,790
Parks	-	-	59,940	59,940
Cemeteries	31,014	-	-	31,014
Animal Shelter	-	-	-	-
Community Development	-	-	32,069	32,069
Capital outlay	123,762	-	1,771,910	1,895,672
Debt service:				
Principal	-	611,900	-	611,900
Interest and fees	-	100,290	-	100,290
Bond Issuance Costs	-	1,500	-	1,500
Total expenditures	<u>\$ 520,768</u>	<u>\$ 713,690</u>	<u>\$ 2,069,500</u>	<u>\$ 3,303,958</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (48,964)</u>	<u>\$ 29,794</u>	<u>\$ (1,423,012)</u>	<u>\$ (1,442,182)</u>
Other Financing Sources (Uses):				
Issuance of Bonds	\$ -	\$ -	\$ -	\$ -
Premium on Issuance of Bonds	-	-	-	-
Transfers in	17,000	-	782,671	799,671
Transfers out	(3,000)	-	-	(3,000)
Payment to Refunded Bond Escrow Agent	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ 14,000</u>	<u>\$ -</u>	<u>\$ 782,671</u>	<u>\$ 796,671</u>
Net Change in Fund Balances	\$ (34,964)	\$ 29,794	\$ (640,341)	\$ (645,511)
Fund Balances, Beginning	<u>476,941</u>	<u>22,109</u>	<u>2,372,436</u>	<u>2,871,486</u>
Fund Balances, Ending	<u>\$ 441,977</u>	<u>\$ 51,903</u>	<u>\$ 1,732,095</u>	<u>\$ 2,225,975</u>

City of Henderson, Texas
Combining Balance Sheet
Nonmajor Special Revenue Funds
September 30, 2016

	Drug Seizure	Task Force	Tourism	Main Street	2012 Series Certificate of Obligations	Cemetery	Animal Shelter	Total
<u>Assets</u>								
Cash and Cash Equivalents	\$ 49,977	\$ 12,066	\$ 220,174	\$ 41,607	\$ 394,238	\$ 68,702	\$ 20,330	\$ 807,094
Investments	469	-	703	-	-	4,433	401	6,006
Receivables (net of allowance for uncollectibles):								
Hotel/Motel Taxes	-	-	12,630	-	-	-	-	12,630
Accounts	-	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-
Total Assets	\$ 50,446	\$ 12,066	\$ 233,507	\$ 41,607	\$ 394,238	\$ 73,135	\$ 20,731	\$ 825,730
<u>Liabilities</u>								
Accounts Payable	\$ -	\$ -	\$ 2,373	\$ 6,097	\$ -	\$ 1,563	\$ 140	\$ 10,173
Due to Other Funds	-	-	1,914	-	313,313	-	-	315,227
Unearned Revenue	16,467	7,373	34,513	-	-	-	-	58,353
Total Liabilities	\$ 16,467	\$ 7,373	\$ 38,800	\$ 6,097	\$ 313,313	\$ 1,563	\$ 140	\$ 383,753
<u>Fund Balances</u>								
Restricted	\$ 33,979	\$ 4,693	\$ 194,707	\$ -	\$ -	\$ -	\$ -	\$ 233,379
Committed	-	-	-	35,510	80,925	71,572	20,591	208,598
Total Fund Balances	\$ 33,979	\$ 4,693	\$ 194,707	\$ 35,510	\$ 80,925	\$ 71,572	\$ 20,591	\$ 441,977
Total Liabilities and Fund Balances	\$ 50,446	\$ 12,066	\$ 233,507	\$ 41,607	\$ 394,238	\$ 73,135	\$ 20,731	\$ 825,730

City of Henderson, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended September 30, 2016

	Drug Seizure	Task Force	Tourism	Main Street	2012 Series Certificate of Obligations	Cemetery	Animal Shelter	Total
Revenues:								
Hotel/Motel Occupancy Tax	\$ -	\$ -	\$ 154,608	\$ -	\$ -	\$ -	\$ -	\$ 154,608
Charges for services	-	-	108,758	-	-	-	-	108,758
Interest	35	-	267	44	2,796	75	31	3,248
Miscellaneous	5,415	-	-	11,120	4,809	51,780	132,066	205,190
Total revenues	\$ 5,450	\$ -	\$ 263,633	\$ 11,164	\$ 7,605	\$ 51,855	\$ 132,097	\$ 471,804
Expenditures:								
Current:								
Public Safety:								
Police	\$ 5,791	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,791
Public Services:								
Tourism	-	-	190,551	-	-	-	-	190,551
Civic Center	-	-	146,269	-	-	-	-	146,269
Main Street	-	-	-	23,381	-	-	-	23,381
Cemeteries	-	-	-	-	-	31,014	-	31,014
Animal Shelter	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	123,762	123,762
Total expenditures	\$ 5,791	\$ -	\$ 336,820	\$ 23,381	\$ -	\$ 31,014	\$ 123,762	\$ 520,768
Excess (Deficiency) of Revenues Over Expenditures	\$ (341)	\$ -	\$ (73,187)	\$ (12,217)	\$ 7,605	\$ 20,841	\$ 8,335	\$ (48,964)
Other Financing Sources (Uses):								
Transfers in	\$ -	\$ -	\$ -	\$ 17,000	\$ -	\$ -	\$ -	\$ 17,000
Transfers out	-	-	(3,000)	-	-	-	-	(3,000)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (3,000)	\$ 17,000	\$ -	\$ -	\$ -	\$ 14,000
Net Change in Fund Balances	\$ (341)	\$ -	\$ (76,187)	\$ 4,783	\$ 7,605	\$ 20,841	\$ 8,335	\$ (34,964)
Fund Balances, Beginning	34,320	4,693	270,894	30,727	73,320	50,731	12,256	476,941
Fund Balances, Ending	\$ 33,979	\$ 4,693	\$ 194,707	\$ 35,510	\$ 80,925	\$ 71,572	\$ 20,591	\$ 441,977

City of Henderson, Texas
Combining Balance Sheet
Nonmajor Capital Projects Funds
September 30, 2016

	<u>Texas Capital Grant</u>	<u>General Construction</u>	<u>Street and Drainage</u>	<u>Civic Center</u>	<u>CDBG Grant</u>	<u>Total</u>
<u>Assets</u>						
Cash and Cash Equivalents	\$ -	\$ 787,776	\$ 824,533	\$ 701	\$ 41	\$ 1,613,051
Investments	-	686	746	823	-	2,255
Receivables (net of allowance for uncollectibles):						
Franchise Taxes	-	-	64,977	-	-	64,977
Accounts	-	108,608	-	-	-	108,608
Special assessments	-	-	28,006	-	-	28,006
Total Assets	\$ -	\$ 897,070	\$ 918,262	\$ 1,524	\$ 41	\$ 1,816,897
<u>Liabilities</u>						
Accounts Payable	\$ -	\$ 38,058	\$ 2,043	\$ 15,906	\$ -	\$ 56,007
Due to Other Funds	-	-	-	-	-	-
Unearned Revenue	-	-	28,795	-	-	28,795
Total Liabilities	\$ -	\$ 38,058	\$ 30,838	\$ 15,906	\$ -	\$ 84,802
<u>Fund Balances</u>						
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 41	\$ 41
Committed	-	859,012	887,424	-	-	1,746,436
Unassigned	-	-	-	(14,382)	-	(14,382)
Total Fund Balances	\$ -	\$ 859,012	\$ 887,424	\$ -	\$ 41	\$ 1,746,477
Total Liabilities and Fund Balances	\$ -	\$ 897,070	\$ 918,262	\$ 15,906	\$ 41	\$ 1,831,279

City of Henderson, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Year Ended September 30, 2016

	Texas Capital Grant	General Construction	Stree and Drainage	Civic Center	CDBG Grant	Total
Revenues:						
Franchise Taxes	\$ -	\$ -	\$ 212,666	\$ -	\$ -	\$ 212,666
Charges for services	-	314,449	71,708	-	-	386,157
Intergovernmental	-	-	-	-	-	-
Interest	-	2,313	2,376	47	-	4,736
Miscellaneous	-	42,929	-	-	-	42,929
Total revenues	\$ -	\$ 359,691	\$ 286,750	\$ 47	\$ -	\$ 646,488
Expenditures:						
Current:						
General Government:						
Nondepartmental	\$ 4	\$ 8,021	\$ -	\$ -	\$ -	\$ 8,025
Sanitation	-	16,766	-	-	-	16,766
Public Services:						
Civic Center	-	-	-	-	-	-
Streets	-	-	180,790	-	-	180,790
Parks	-	59,940	-	-	-	59,940
Community Development	-	32,069	-	-	-	32,069
Capital outlay	-	682,444	1,028,200	61,266	-	1,771,910
Total expenditures	\$ 4	\$ 799,240	\$ 1,208,990	\$ 61,266	\$ -	\$ 2,069,500
Excess (Deficiency) of Revenues Over Expenditures	\$ (4)	\$ (439,549)	\$ (922,240)	\$ (61,219)	\$ -	\$ (1,423,012)
Other Financing Sources (Uses):						
Transfers in	\$ -	\$ 178,296	\$ 604,375	\$ -	\$ -	\$ 782,671
Transfers out	-	-	-	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ 178,296	\$ 604,375	\$ -	\$ -	\$ 782,671
Net Change in Fund Balances	\$ (4)	\$ (261,253)	\$ (317,865)	\$ (61,219)	\$ -	\$ (640,341)
Fund Balances, Beginning	4	1,120,265	1,205,289	46,837	41	2,372,436
Fund Balances, Ending	\$ -	\$ 859,012	\$ 887,424	\$ (14,382)	\$ 41	\$ 1,732,095

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**INTERNAL CONTROL AND
COMPLIANCE SECTION**

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Morgan LaGrone, CPA, PLLC

Certified Public Accountant

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116 S Marshall
Henderson TX 75654

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable City Council
City of Henderson
400 W. Main
Henderson, Texas 75652

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Henderson, Texas, ("City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 10, 2017.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

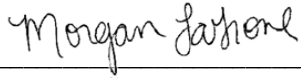
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

MEMBER

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Morgan LaGrone
Certified Public Accountant

Henderson, Texas
March 10, 2017

City of Henderson, Texas
 Summary of Auditor's Results and
 Schedule of Findings and Questioned Costs
 For the Year Ended September 30, 2016

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes Not Applicable

Significant deficiencies identified that are not considered to be material weaknesses? Yes Not Applicable

Type of auditor's report issued on compliance for major programs: Not Applicable

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes Not Applicable

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes Not Applicable

B. Financial Statement Findings

N/A

C. Federal Award Findings and Questioned Costs

N/A

City of Henderson, Texas
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2016

Prior Year Finding

Current Status

Not applicable for the year ended September 30, 2016.

City of Henderson, Texas
Corrective Action Plan
For the Year Ended September 30, 2016

Not applicable for the year ended September 30, 2016.